March 4, 1959

Investor's Reader

For a better understanding of business news

AERIAL WORK FOR AIR REDUCTION FUTURE

(see page 19)

CLASSY FIGURES

Anita Ekberg, a generally looked-up-to figure expert, has cause to admire the classy figures of William ("WO") O'Neil. As president WO put it in writing to General Tire & Rubber stockholders: "In 1958 we continued our pace as the fastest growing company in the rubber industry. Sales rose to an alltime high of $470,000,000, an increase of $48,000,000 or 11½% over 1957, our previous best year * * * Sales were five times greater than those of 1949."

Considering the recession and the rough road for autos, the No 5 tiremaker's profits for the year ended last November were also excellent. They came to $11,280,000 or $2.06 a share, down just a trifle from the $11,300,000 ($2.12 on fewer shares) of 1957 and a small bump from the $11,600,000 ($2.46) record of 1955. WO added: "Actually, exclusive of RKO Teleradio, consolidated earnings were some $3,000,000 better than in 1957." This subsidiary earned $4,500,000 on radio & TV work but lost more than that in its now discontinued theatrical film business.

Reason for the fine showing: fourth quarter sales of $148,400,000 were "the highest quarterly sales in the company's history." Fourth quarter earnings of $1.15 a share "exceeded those [91¢] of the entire preceeding nine months." Penning in the facts behind the figures, WO continues: "The profits of our tire division were substantially ahead of last year despite a drop in original equipment sales." Better still 87%-owned space-age subsidiary Aerojet-General raised "its earnings to $6,030,000, an increase of 58% over 1957." Looking ahead, indomitable O'Neil predicts: "The upsurge in the fourth quarter and other factors give strong indication 1959 will be the finest year in General's history."

While awaiting the final 1958 news, General Tire stock starred as one of the most active issues on the Big Board, jumped four points in one day to a new alltime high of 53⅝. It now trades at 52. However on the Amex, successful Aerojet currently sells at 59, almost 11 points shy of its alltime high reached early this year.

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Brighter Days for the Storekeepers

The Ring of Cash Registers Sounds Across the Land

THE NATION'S department stores appear headed for their biggest boom ever. Last week in New York City Kirby, Block & Company, one of the top resident buying organizations, stated the department and apparel stores they represent "are doing the biggest dollar volume of business in history." The company added February sales are excellent but "the really big gains" will come in March thanks to the earliest Easter in eight years. Stated Kirby, Block: "The timidity and hesitancy" of past years is gone.

Meanwhile the FRB reported department store sales in the key Second District (New York and northern Jersey) in the week ended February 7 were 5% above a year ago. Some gains were spectacular—27% in Rochester and 12% in Newark. A few days before the FRB reported nationwide sales in January were 5% above last year and a record high for the month.

In many respects this news is no surprise — 4,240,000 babies were born in the US last year; since 1950 the population has increased at the rate of 1.7% annually. Moreover, the 19,500,000 youngsters who were born in the 1940-50 decade are growing into the heaviest buying age.

Along with the population gain is the persistent rise in consumer disposable income ("personal income less individual taxes"). It is now at an alltime high of $315 billion *v* $190 billion in 1949 and $83 billion in the frolicsome Twenties.

Meantime total consumer debt has remained steady for more than two years. The psychology: with income up and debt unchanged, the average citizen thinks he has more money to spend. This is why one big magazine ran a streamer on its cover:

"Who are the Big Spenders?—the US consumers."

Internal Changes. By coincidence or otherwise, the current upswing in the stores follows an energetic cost-cutting campaign—a recession-inspired activity in many industries (see page 4). The recession slashed profit margins so fast some long-profitable merchants suddenly found themselves in red ink. One example is Allied Stores which had to announce a $122,000 deficit in the April quarter *v* 1957's $1,639,000 profit. Even 117-year-old Gimbel Brothers saw April quarter profits dwindle to $617,000 (barely half the year before) but earnings have been recovering steadily since.

The economies which cushioned the downturn should pad profits in the prosperity. In his Madison Avenue office last week Associated Dry Goods treasurer George E Troutt stated: "We want to keep costs down * * * we will resist restoring expenses so laboriously taken out of the structure."

Many stores spend money to make money. A case in point is R H Macy which has just installed a million-dollar, six-store electronic computing system to speed service and reduce labor costs.

Still other stores continue expansion with a goal of higher profit margins along with higher volume. Conservative J C Penney which has opened 70 stores in the past five years (present total: 1,690) expects to unveil 20 new ones this year, relocate 40 existing stores, remodel about 125 and probably close 20-to-25 no longer profitable outlets.

Expansion at Federated Department Stores (Bloomingdale, Filene etc) will "continue indefinitely" according to president Ralph Lazarus. Ten major projects are on the calendar — seven for completion this year. Allied Stores plans to spend over $4,000,000 modernizing the New York landmark of Stern Bros.

While retailers insist "downtown is not dead" and back this assertion with cash, the march on suburbia is the most outstanding feature in department store activity. As just two examples, Gimbel and Allied have undertaken suburban programs involving heavy near-term expenses, hope soon to reap the profits on their large investments.

Any improvement in profit margins would be great news for investors. If Federated (the most profitable operator) could retain only half a penny more from each sales dollar it takes in it would add 13% or $3,200,000 to net profits. And with volume of $237,000,000 last year, a similar increase in margins at Associated Dry Goods would boost net $1,183,000 or one-sixth.

A good example of efficient management is specialty shops Lane Bryant Inc which operates 80 stores including the Over Five-Seven, Newman Benton and Coward Shoe divisions. Last week president Raphael Bryant Malsin (son of founder Lena Bryant) pointed to automation as the profit savior to replace costly, hard-to-get labor. Wall Streeters say earnings in the fiscal year ended January may have reached a new record above $2,000,000. At Lerner Stores profit margins have been

helped by common-sense cost reduction plus such things as improved packaging at the manufacturer's level, centralized warehouses and less capital investment a store (shopping centers pay many costs).

Backward Look. The current prosperity comes after a long stretch in which most department stores wallowed in slow sales and shallow profits. Many stores set their peak earnings in 1945-46 and have yet to match those records.

One example is R H Macy with net of $9,335,000 in fiscal 1946 contrasted with $6-or-7,000,000 currently. Another big example is Allied Stores whose 1946 earnings were $18,400,000 or almost double today's levels. Out in Portland, Ore swank Meier & Frank cleared over $2,000,000 a dozen years ago *v* $1,229,000 in the last financial report.

Investors have written their reaction in common stock prices. Standard & Poor's 500-stock index is triple the 1946 high yet the S&P department store group coasts at only one-third above the highs of 13 years ago. But recently many store stocks have risen sharply.

As usual, there have been some significant exceptions to stock lethargy. One is Federated Department Stores headed by able Fred Lazarus (chairman) and his son Ralph (president). Federated has pushed ahead over the past decade and is presently the No 1 department store chain. Its common stock has followed along and presently sells four times the level of a decade ago—with allowance for a 20% stock dividend in 1951, a 2-for-1 split in 1956.

Forward Look. Tucked away in the mass of department store statistics is one vital but little known fact—the Bureau of Labor Statistics says department store prices have risen only 7% in the past decade *v* 24% for the cost of living. This small price rise may account for some of the small profit margins but in turn it places the merchants in a better position to increase prices to cope with future inflation.

Regardless of the present aura of optimism the stores still have many problems. As yet department store clerks are noted neither for their courtesy nor salesmanship. Often sloppy credit policies erode profits almost as fast as they are earned. Many stores suffer because a once-fine neighborhood has deteriorated. And even capricious weather can have a disastrous effect and storekeepers can do nothing about it.

But whither weather, well-informed men in the industry are uncommonly optimistic. Associated's George Troutt states flatly: "This Spring we should look like heroes." Lane Bryant's Ray Malsin, a one-time newspaper man, reports: "The future looks good. If the country does well, we should do even better." In his office high above midtown Manhattan, veteran retailer (39 years) Penney chairman Albert Hughes avers: "We look forward to a good 1959 with profits back to at least the record level of 1957." And when Ralph Lazarus recently spoke before the National Industrial Conference Board he started with "this is a cheerful time to discuss the retail business—the outlook is bright."

NATIONAL ECONOMY

Recession Result

SOMETIMES a little economy can go a long way. Last week Goodyear Tire & Rubber Company—the world's No 1 in its field—reported record profits for 1958 despite a lag in sales. Earnings edged from $5.99 (adjusted for a 2% stock dividend) to $6.08 a common share while sales dipped 4% to $1.4 billion. Forecast happy chairman Edwin Joel Thomas (IR, Nov 12, 1958): "We anticipate expanded markets in 1959."

A similar story was told the next day by the Nickel Plate, officially known as the New York, Chicago & St Louis Railroad. In January it grossed $11,875,000 or just $25,700 more than the year before. But thanks to cost cutting, net income shot up to $734,000, fully $202,000 above January 1958.

ELECTRONICS

Collins Spacemen

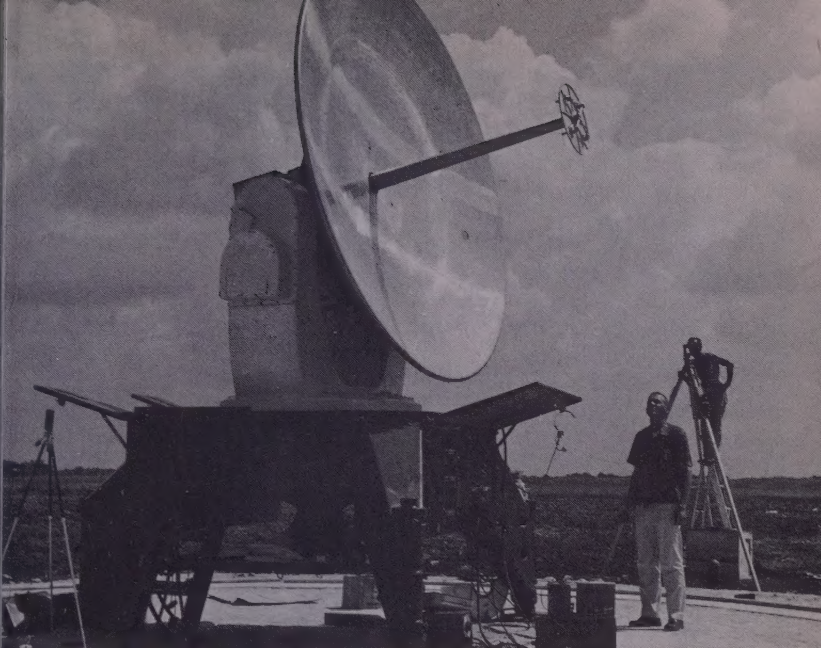
TO THE Collins Radio Company of Cedar Rapids, Iowa the enigmas of the atmosphere and outer space are but ordinary problems in its everyday activities. For fully ten years the $71,000,000-assets supplier of electronics communications equipment has been groping with the vagaries of the "beyond."

In 1952 it was the first to make radio contact with the moon. Today lunar communication is only a part of Collins radio wave propagation research. In cooperation with the Army the company has set up a series of tests which use the moon as a passive relay for UHF radio-teletypewriter transmissions from various stations on earth.

Another phase of its outer space work: the dish antenna built at the down-range station at Mayaguez, Puerto Rico (see picture, pg 5) which was used late last year to track the Army's first space probe. For future probes Collins is also designing and constructing ultra lightweight, high stability space vehicle transmitters which will be used to relay data from vehicles in flight in outer space.

Collins also has a wide range of worldly activities. The radio part of its name stems from manufacture of AM broadcasting and amateur radio equipment (it makes no consumer sets). But these are only a small part of Collins business. It is better known for its multifarious electronics systems. For one, it is a leading maker of aircraft navigation and flight control systems which include weather radar, automatic pilots, approach and en route navigation. About 80% of the new commercial jets—the Boeing 707, Douglas DC-8, Convair 880 and Lockheed's turboprop Electra—utilize a light-weight line of Collins communication and navigation equipment.

Collins also turns out specially tailored "integrated electronics systems" or CNI (communication, navigation and identification) for many of today's Mach 2 jets. Among them: the McDonnell F4H-1 fighter and North American A3J-1 attack aircraft for the Navy, the Republic



Collins tracks Army space probe

F-105 fighter-bomber for the Air Force. The Collins Sun & Moon tracker is now undergoing trials on the Navy test ship *Compass Island* in preparation for eventual use on Polaris-armed submarines. With this tracker coupled to an inertial guidance system the sub will not have to surface to establish its position before firing.

Groundwise Collins is a leader in microwave systems which allow long-range communications without the use of wires through "line of sight" transmission. Collins "turn-key" microwave systems are used by the Federal Aviation Agency for air traffic and safety controls. Another communications development: single sideband (SSB). Designed by Collins for the Air Force, this system offers reliable high-frequency communication to globe trotting aircraft in any theater of operation. It is also used by pipelines, railroads, phone companies. Already Collins has on order or completed more than $65,000,000 worth of single sideband contracts.

Government Emphasis. Most of Collins work is in Government and defense contracts and promises to be so for some years. Currently backlog stands at a hefty $150,000,000, up from $123,000,000 in July. Only $20,000,000 is commercial. Contracts are varied, include $7,000,000 for extended radar coverage equipment at FAA air route traffic control centers and a subcontract from McDonnell to develop the complete electronic instrumenta-

tion for its man-in-space capsule.

Commercialwise Collins just landed a $1,000,000 order from Vickers-Armstrong for flight control and navigation equipment for 20 new Vanguard transports ordered by Trans-Canada Air Lines. It is also doing navigation systems for some of the new multi-engine executive aircraft, hopes to get some of the single engine business, too.

But such varied work does not always spell profits. Research & development costs (Collins spends 4-to-6% of sales a year on its own) on commercial work often fly drastically and unexpectedly high before any profits come in. Also the whims of defense budgetry often cause delays, cutbacks and outright cancellation. Subcontractors (Collins frequently is) are particularly vulnerable since the prime contractor may be able to handle the smaller job alone.

As a result of such factors Collins fared poorly in the year ended last July. As sales fell 16% to $107,600,000, the company suffered a $257,000 operating loss. However a tax refund and a reversal of reserves held for 1953-54 renegotiation brought final profits of $1,082,000 or 56¢ on each of the 736,000 Class A voting and 769,000 Class B non-voting shares. This compares with a net income of $2,193,000 ($1.29) earned in fiscal 1957. Hence at last Summer's annual dividend meeting, Collins directors voted no payment. They had distributed 35¢ a share in each of the two previous Julys.

Figures for the first half of fiscal 1959 are not yet in. But executive vice president Robert S Gates reports: "We definitely improved over last year and will continue to do so through the second half." He figures sales for the full year "will be substantially higher and earnings in the neighborhood of $1.60 a share." As for the dividend, "we were disappointed that we had to pass." However if all goes well Collins stockholders may be in line for some cash later this year.

In anticipation of better things, Collins stock which dropped from 32 in 1956 to 10 last year has more than doubled in the over-the-counter market, now trades around 26. The upsurge is also reflected in two convertible issues: the 122,000 shares of $2 preferred which can be exchanged for 1.85 shares of common up to May 1 (fewer thereafter) are up from 28 to 48 while $8,000,000 of 5% debentures convertible into 37.74 Class B shares to May 1 have risen from $740 to $1100.

DRUGS
Lilly Highlights

PERHAPS more than any other, the drug industry constantly supersedes, outdates and obsoletes its products. This treadmill could be disastrous were it not for vast research & development programs through which drug makers constantly turn up new treatments and better cures to vitalize user and maker alike.

A prime example of this resilience is one of the $2.5 billion-a-year industry's major members, Eli Lilly & Company. It compounds some 1,200 antibiotic, Insulin, vitamin, vac-

cine, antitoxin, sedative and analgesic products as well as organic chemicals and veterinary medicines.

A pioneer in the once lucrative Salk polio vaccine program (it is by far the biggest producer of Salk vaccine), Lilly last year watched consumer apathy, a certain degree of market saturation and lower prices knock its Salk sales $17,000,000 or a drastic 57% down from 1957.

However thanks to a healthy gain from an assortment of new products, the $217,000,000 - assets druggist managed to finish 1958 with a $180,500,000 volume—only 10% below the previous year. Despite an expected continued decline in Salk demand, Lilly president Eugene N Beesley notes the sales upswing which led to an alltime high fourth quarter should "continue in 1959." In fact the company has budgeted a 10% sales boost for the current year.

Earningswise Lilly fared not quite so well. Despite a slight fourth quarter pick-up, full-year profits fell to $23,700,000 or $2.97 a common share from $32,300,000 or $4.07 in 1957. However this was partly due to a planned increase in research and expansion and this year president Beesley expects earnings also to climb 10%.

Most of Lilly's gains should come from potent new products. Late last year it brought out Ilosan which is becoming increasingly important in the broad spectrum antibiotic field. Another new product is Delvex (known abroad as Telmid) which tackles four types of human parasites. Its biggest market is abroad but it also has a bright US future for animal use, is handled through subsidiary Corn States Laboratories which Lilly acquired three years ago to give it a hoof in veterinary medicine.

Due to new oral diabetic drugs introduced by Upjohn and Pfizer sales of Insulin, one of Lilly's most important and profitable drugs, have currently leveled off. However Lilly's own oral diabetic drug may prove superior to those already on the market and become a big factor in diabetic treatment.

The Indianapolis firm is also boosting research expenditures, spent $15,700,000 last year and has budgeted more in 1959. Most of this is for human medicine (Lilly is an important cancer researcher) but some is for veterinary and industrial chemicals. It recently completed a $4,600,000 expansion of its Tippecanoe Laboratories at Lafayette, Ind which boosted the company's organic chemical manufacturing capacity by 50%. A new agricultural research center which is scheduled to begin operation in the middle of this year is part of the $10,500,000 expansion programmed for 1959.

The 8,000,000 shares of Lilly common have responded to the company's vigor, now trade actively over-the-counter around 75, a 17-point recovery to within seven points of the alltime high set early in 1958. Lilly directors have added their optimism. At the February dividend meeting they boosted the quarterly payout to 50¢. The previous rate was 45¢ with a 20¢ year-end extra thrown in the past two years.

BANKING
Mayer of the Mellon

IN THE highly competitive business world, reaching the top spot in any major corporation is quite a distinction. It is even more remarkable for an executive to command a company in one industry, switch to another field and again rise to the presidency in his new company. This is the accomplishment of 49-year-old John Anton Mayer, newly-appointed president of Pittsburgh's Mellon National Bank & Trust Company and one-time head of the Golden Triangle's Reliance Life Insurance Company. Queried on his success formula John Mayer offers: "I think maybe I just happened to be at the right place at the right time."

Mellon banker Mayer

A bank had been insurance man Mayer's first "right place." While he was still in high school in Terre Haute, Ind he began to work for a small bank during summer vacations, progressed from messenger's duties to bookkeeping and telling. However after receiving his bachelor's (1932) and master's (1933) from the University of Pennsylvania's Wharton School of Finance, he went to work for Penn Mutual Life Insurance Company.

With time out for a War II tour in the Navy, he stayed with Penn Mutual until 1949. Then he left his post as secretary of the Philadelphia company to come to Pittsburgh as president of $300,000,000-assets Reliance which was controlled by Mellon Bank.

However, when Reliance was combined in 1951 with Fort Wayne's Lincoln National Life (IR, Sept 7, 1953) he stayed in the Mellon financial family and went back to banking as a vice president of the Pittsburgh institution. In 1957 he became the bank's executive vp and early last month was appointed president to succeed retiring prexy Lawrence Murray. Financier Richard Mellon continues as chairman and chief executive officer.

In addition to his banking duties, John Mayer serves as a director of Armco Steel, Blaw-Knox and H J Heinz. The new president admits: "I play a little golf and take some pictures but I really don't have any hobbies. My work takes up most of my time and since I really enjoy it, I don't mind not having much time for other things."

Investor's Reader

What with the demands of multibillion banking, the new president, is not apt to find extra time. His $2.1 billion-assets bank is No 11 in the nation with $1.8 billion deposits at the end of 1958. Its loans totaled $969,000,000 on December 31 while its investment portfolio was valued at $740,000,000.

Mellon conducts a thriving business in both retail & wholesale banking. In addition it has a highly profitable trust operation which has shown an "uninterrupted rise" in revenues for many years with the result "this source of income to the bank more than doubled in the past ten years."

In general, overall net operating earnings moved up ever so slightly last year to $21,300,000 from $21,140,000 in 1957. This works out to $8.32 a share compared to $8.45 on fewer shares in 1957. The figures are adjusted for the 2% stock dividend paid last year as well as the similar distribution due this month.

Last year forward-moving Mellon merged Woodlawn Trust of Aliquippa and Barclay-Westmoreland Trust of Greensburg to gain five new offices, bring its branch total to 60. The consolidations, a 2% stock dividend and increases in surplus boosted capital funds to $250,000,000 so the bank can now lend some $25,000,000 to a single customer. Long known for its exceptionally strong capital position, Mellon boasts the second highest capital funds-to-deposits ratio of all major commercial banks. New York's Guaranty Trust is first.

RAILROADS

Denver & Rio Grande Expects Bigger Profits In the Missile Age

EVER SINCE its 1947 reorganization from its third siege of bankruptcy the mountain-climbing Denver & Rio Grande Western Railroad has been picking up steam. Thanks to an ambitious $160,000,000 modernization program the Rio Grande—once dubbed "two streaks of rust"—now boasts some of the best-polished profits tracks in the country.

Revenues advanced from $58,700,000 in 1947 to a record $85,200,000 in 1957. In the same period net income chugged from $4,400,000 or 81¢ a share after preferred dividend requirements to a record $13,300,000 ($6.38 with no preferred outstanding). Although last year the recession caused revenues to drift back to $76,900,000, net to $10,400,000 or $4.95 a share, President Gale Benton Aydelott could proudly proclaim in a telephone interview last week: "We are now in the strongest financial position in our entire history."

As if to prove this prosperity, directors late in January proposed a 3-for-1 stock split with the dividend on the new shares to be raised to 25¢ a quarter—equal to 75¢ on the present shares compared to the 62½¢ rate in force since 1956. In the twelve years since reorganization, common holders have already enjoyed a 50% stock dividend in 1953, a 3-for-1 split in 1955. And the proposed dividend hike marks the seventh increase since 1948

when directors authorized quarterly payments of 11¢ a share for the first common dividend action in 50 years. In response to these signals DGR (Big Board ticker symbol) common rose to an alltime high of 64 in January—30 points above the 1958 low. It now trades around 59.

Powering the Rio Grande regeneration has been a succession of exceptionally able executives. Beginning with court appointed trustees Judge Wilson McCarthy and banker Henry Swan (IR, June 23, 1948) who took over when reorganization was started in 1935, the 89-year-old road has enjoyed one of the most forward-looking railroad managements in the country. One 1936 recruit is current president Aydelott who joined DGR as a welder's helper after graduation from the University of Illinois. Moving up the rails, 44-year-old Aydelott served as general manager and executive vice president, became president in 1956. Another Rio Grande "trainee" was Alfred Edward Perlman who joined in 1936 as chief engineer, worked up to executive vp—the post he held until he left to become president of the New York Central in 1954.

At the Bridge. In addition to its modern management and up-to-date equipment the 2,155-mile railroad owes its profitable position to advantages of logistics and location. The DGR enjoys a strategic position as a "bridge" line across the steep slopes and rocky curves of Utah and Colorado, linking other roads in a transcontinental route. It connects with the Western Pacific at Salt Lake City and the Southern Pacific at Ogden, with the Missouri Pacific at Pueblo, Colo and the Burlington and the Rock Island at Denver. About one-third of the Rio Grande's freight is pure bridge traffic, both coming from and going to other lines. Thus it saves on loading, unloading and many other labor costs.

A second big plus is the growth of its service area. Population is increasing rapidly in Colorado and Utah; so are new mines and factories. Peppy president Aydelott (pronounced aid-a-lot) notes: "We estimate 44 new industries moved into our area in 1958, many of them in the natural resources line." This build-up of industry is not just left to fate. "The railroad is constantly buying property for rent or sale to new industry." He points out: "This has been a major program for 15 years. We have a land company subsidiary and an industrial development department which is so busy I can't even talk to them on the telephone."

To the Rio Grande "every extra carload means a lot." President Aydelott spells out: "We have spent a lot to multiply our capacity. Since most charges are fixed any added traffic makes a material contribution to net income."

Stockholders Aid a Lot. A new approach for building up carloadings was tried out about a year and a half ago and "you'd really be surprised at the response we got." The freight-getting scheme: "We write a personal letter to each new stockholder and we ask him to help us. It's amazing how many of them are in a position to ship on our rail-

Mechanized repairs pay off for Rio Grande track

road." For instance one plumbing manufacturer who became a stockholder started routing a good portion of his products over the Rio Grande after getting his letter.

DGR stockholders also help the road protect its business. Gale Aydelott notes: "We got a lot of support from stockholders in favor of the Transportation Act of 1958. A lot of them, some with 100 shares or less, wrote to their Congressmen. This helped passage of the act. We were very pleased." Railroader Aydelott feels the Act was "one step in the right direction" but like most of his cohorts he would like more legislation this year to give the railroads further freedom.

He is especially concerned with point No 5 of "The Urgent Six" pushed by the AAR—namely repeal of the exemption from ICC regulation of truckers carrying farm products. In the past 15 years itinerant truckers "have made a heavy invasion upon potato, peach, bean and pea freight in Colorado and Utah." The railroad's loss of freight has been "aggravated by the so-called agricultural exemption clause." Gale Aydelott insists: "With equitable regulation for all types of freight carriers, we could definitely get back into the agricultural commodity business."

Making Tracks. To help itself to new business, the Rio Grande in November obtained ICC permission to buy 13 miles of track around Salt Lake City from the dissolving Bamberger Railroad. The purchase is all in industrial trackage which links "important industries" to regular freight lines. Explains prexy Aydelott: "The acquisition will give us benefits from directly serving the industries located on the former Bamberger tracks." It should make it easier for Rio Grande to solicit long-

haul routings from the old Bamberger patrons.

Unlike Eastern lines, the Rio Grande also wants more passenger traffic. At the moment passengers contribute only 4% of DGR revenues. "We are losing money on the passenger business," Gale Aydelott confessed. "But we're spending money to promote it because we think we could make some money with it if we get a little bigger volume."

Despite the Rio Grande's varied efforts total 1958 carloadings fell 11.6% below 1957. But this is better than the national average drop of 15%. And the picture is improving. In January carloadings ran 1½% ahead of 1958 and during the first half of February they were 17% above the 1958 level. Increased requests for freight cars have come from two big steel producers: the Columbia-Geneva Steel Division of US Steel near Provo, Utah and from the Colorado Fuel & Iron Corp near Pueblo. DGR reports it is also hauling more coal for Kaiser Steel which brings 90% of its coal into California from Sunnyside, Utah and Carbondale, Colo.

With carloadings on the upgrade, Gale Aydelott thinks: "Dollarwise we'll get a 6-to-7% increase in business this year. But it's going to be difficult to increase net proportionately. In the short term it's hard to make expenses stay down low enough while volume builds up. Costs of labor, materials & equipment are going up high and we're caught in the profits squeeze. But the long-term picture is beautiful."

During the past four years the DGR has been highly successful in carrying a healthy portion of gross revenue through to net operating income. In 1955-58 the Rio Grande ranked fourth among the major railroads in converting gross revenues into net railway operating income.

To fight the present profits squeeze the DGR and Gale Aydelott have good weapons: "The best operating people and the best railroad laboratory in the country." In 1937 the reorganization team started the railroad's research lab which today claims to be "the oldest and most active of its kind in the US."

Research Rails. Among the Rio Grande lab's many "firsts": as a result of photo-elastic analysis of stresses in steel, a new standard 115-pound rail section was developed. The rail has been in general use on many railroads since 1947. For the past several years the lab has been studying the feasibility of an atomic locomotive. The prospects seem "encouraging." It has also experimented with a diesel fuel containing pulverized coal. Gale Aydelott reports: "The new fuel has been very successful on a test basis. We're still hoping to find an inexpensive way to manufacture it on a large scale." If an economical method can be devised the new fuel should be cheaper than diesel oil since coal is less costly than oil.

The Rio Grande's atoms & fuels work also takes it into travel of the future. It has a long-term Army contract to investigate the effects of atomic radiation on missile fuels. "I can't give any details," Gale Aydelott says cheerfully, "it's all class-

ified. But while we're doing this work we should learn something which will be useful in railroading." The contract and other plans seem ample proof DGR sees a bright future for railroading in the missile age.

RADIO & TV
Motorola Pictures Gains

LIKE MANY manufacturers, $122,000,000-assets Motorola Inc suffered lower sales—off 17% in the first nine months of 1958. Happily, however, business has rebounded. A banner fourth quarter saw volume of over $75,000,000 with earnings close to $2 a share compared to $1.28 in the same 1957 period.

The strong spurt brought total 1958 sales to over $210,000,000, not much more than 5% below 1957 results. Net income for the year is estimated at well in excess of $3.50 a share *v* $4.04 in 1957.

President Robert William Galvin noted a "combination of factors which is still at work was responsible for the upswing." One major factor is the pick-up in auto production. Motorola supplies original equipment radios for Ford, Chrysler and American Motors. It plays an even bigger role in post-factory installations.

Incidentally, original equipment radios are all transistorized so the prediction (IR, Nov 28, 1956) of chairman Paul Vincent Galvin, Bob's father, that "by 1960 four-fifths of our products will be fully transistorized" is becoming an accomplished fact.

Car radios gave the company its name but Motorola is also a major producer of TV sets. It has recently upgraded both style and engineering of its models to gain a larger share of the 1959 market. In addition, stereophonic equipment is becoming an important line and the company expects to triple its sales in the first quarter.

However consumer business nowadays accounts for less than half of the Chicago concern's volume. Motorola is a big factor in mobile radio systems for two-way communication and in semiconductors, and expects to grow bigger with both these fields.

Nearly one-fourth of Motorola's business is centered on defense work. The company has received a $1,100,000 contract from the Navy to develop an improved guidance unit for the Sidewinder missile and is busily expanding the Phoenix semiconductor plant by 90,000 square feet.

The outlook for 1959 is bright. Profits should be helped not only by higher volume but also by a cost cutting program expected to save $1½-to-2 million annually. In the relatively slow first quarter sales are expected to top $55,000,000 with earnings over $1 a share *v* 35¢ a year ago.

Motorola has unwaveringly paid a 37½¢ dividend every quarter since 1952. Some Wall Streeters figure this year's expected gains could lead to an extra distribution. Meantime Motorola shares reflect the company's recovery, have climbed swiftly from their 1958 low of 35 to post a new alltime high of 62¾ on the Big Board.

Steelmen Study Expansion Programs

Modest Increase Planned
By Industry After Drop
In Recession Year

AMERICAN STEEL MILLS are momentarily expected to set a new alltime production record, topping the 2,525,000-ton weekly high set in mid-December 1956. While this will mark a 99% recovery in tonnage from the recession's low point in April 1958, the rate still represents only around 90% of current steelmaking capacity compared to the 100% or better ratios in vogue a few years back.

The paradox is of course explained by the vast expansion in the industry's facilities. Since War II the nation's steel makers have spent more than $11 billion to raise their annual capacity by 52,100,000 tons or 54%; in the past two years alone $2.9 billion was spent for a 14,100,000-ton boost.

These massive figures tell why steel companies seemed so ready to curtail expansion plans last year and despite the startlingly brisk recovery in their business have scheduled only moderate increases in capital expenditures this year. Specifically, the $965.000.000 budgeted by the eight largest companies this year comes to only $100,000,000 more than 1958 and remains one-third below the record $1.4 billion paid out in 1957 (see table).

Current capacity of 147,600,000 tons (up 7,000,000 tons from last year) is 26% larger than the 117,000,000 tons actually produced in record steel year 1955 and is not apt to be taxed by immediate demand. In fact, even without the recession, the rate of expansion would probably have slowed for a while as many of the ambitious long-range programs mapped in the early and middle Fifties reached completion.

Moreover steel makers agree the present fast rise in demand is spurred in good part by fears of a possible prolonged strike when present labor contracts expire June 30—or else a new price hike when the next contract is signed. Strike or no, steel demand is expected to decline in the third quarter.

Actually most current planning is not directed toward adding capacity for its own sake. Rather, as Youngstown Sheet & Tube financial vice president George McCuskey declares: "Most spending this year will be to reduce costs, improve efficiency and take care of changing customer requirements. I don't look for any big pickup in capital expenditures generally." This desire for more efficient facilities in an era of inevitably rising labor costs was intensified by the lesson learned in 1958: all the large steel companies found their modern cost-minimizing equipment enabled them to operate at a profit even when operations dipped below 60% of capacity.

Box Score. Most companies have announced their 1959 budget but there is one big exception: industry leader US Steel which generally accounts for about 40% of the industry outlays never releases definite figures in advance. However be-

spectacled chairman Roger Blough reveals: "There is no change in our policy with respect to continuing our normal expenditures in 1959." Big Steel spent $448,000,000 in 1958 and $515,000,000 in 1957.

US Steel has on tab a number of "authorized projects" which have no definite deadline. At the end of the year they totaled $730,000,000, down $30,000,000 from last June's alltime high. These are reviewed monthly by the directors who may put a "go" signal on any one of them.

Biggest Big Steel project now underway is development of an iron ore mine at Lac Jennine, Quebec. The $300,000,000 mine will be Canada's largest and costliest.

Among other US Steel plans is a new coal mine in the Pittsburgh district. Additions to billet and plate mills will add more than 1,300,000 tons to capacity in the booming Chicago district to help sate the appetite of the steel-hungry center which consumes one-third of all steel in the US but produces only one-fourth.

President Arthur Bartlett Homer last week announced **Bethlehem Steel** will spend close to $123,000,000 in 1959. This compares with a $91,400,000 expenditure last year. The No 2 steel maker plans no major projects. "We are just replacing and improving a large number of facilities in order to cut costs." With the death of the Bethlehem-Youngstown merger plans, president Homer also conceded: "We are doing a lot of studying regarding construction of a plant in the Midwest." Possible location: Bessie's 3,500-acre tract near Gary, Ind. Last month vice president E F Martin said Bessie is prepared to spend several hundred million dollars to add 1,560,000 ingot tons of capacity to its 6,000,000-ton Lackawanna plant in the Buffalo district to up production of plate and structural shapes. No time schedule has been announced.

Republic Steel plans call for $57,000,000 capital expenditures in 1959 compared to $47,700,000 in 1958 and a whopping $152,000,000 in

EXPANSION OUTLAYS BY STEEL LEADERS

(grey line charts 8-company total)

	1952	1953	1954	1955	1956	1957	1958	1959 budgeted
				in millions				
US Steel	$469	$361	$227	$240	$312	$515	$448	"normal"
Bethlehem	140	120	77	98	212	209	91	$123
Republic	95	22	20	36	107	150	48	57
Jones & Laughlin	84	41	28	38	113	101	45	56
National	69	73	60	68	109	86	40	75-100
Youngstown	77	64	18	31	80	79	36	70
Armco	50	29	30	35	66	92	60	45
Inland	31	24	30	47	66	131	94	80

1957. This includes replacement of the old coke oven batteries at Cleveland and a plate mill at Gadsden, Ala. Last year it installed an electrolytic zinc plating line and completed a research center at its Cleveland home base. In the past ten years Republic has spent about $660,000,000 on expansion and increased ingot capacity over 40%.

Jones & Laughlin, the nation's fourth largest steel producer, announced cheerfully early this year: "Once again J&L has shown its confidence in improved business prospects. The corporation has increased the amount of money" it originally intended to spend "in 1958-59 on improvements and expansion by $7,000,000." The 1959 budget is estimated at $56,000,000 compared to $45,000,000 paid out last year but a company official reported "improving profit outlook for 1959-60 could bring increases in this year's total." About $3,500,000 will go for a new building to store and load cold rolled sheets in Cleveland, another $533,000 will be spent to rehabilitate an ore dock.

Other projects for 1959 include a ten-story sintering plant (to ready medium grade ore for the blast furnace) plus installation of continuous annealing lines (for making steel less brittle) at the company's newly completed Aliquippa, Pa facilities. J&L will also put in a new bank of 59 coke ovens at its Pittsburgh works.

National Steel plans to spend $75-to-100,000,000 this year *v* a 1958 outlay of $40,000,000. In mid-February National announced a three-year, $300,000,000 expansion program with the biggest expenditure for a major new steel finishing mill between Gary and Michigan City on Lake Michigan's Indiana shore. This is the Pittsburgh-based company's first move into the Chicago environs.

The program also includes a new steel strip mill and 500,000 tons more capacity at Great Lakes Steel, the company's Detroit subsidiary. The Chicago district plant will be supplied from Detroit. At its Weirton, W Va plant, National will rebuild and enlarge a blast furnace, install a continuous annealing line and add more electrolytic tinplate capacity. All told, National will hike its capacity from 7,000,000 tons to 7,500,000.

The next biggest boost in capital spending is planned by sixth-place **Youngstown Sheet & Tube** which will double its 1958 expenditures to an estimated $70,000,000 in 1959. However this is still nearly $10,000,000 below the 1956-57 rate. Vice president McCuskey reports: "There was no planned cutback in 1958. It just happened that way. In the next few years our spending will be closer to $70,000,000 than to last year's $36,000,000."

The company's major 1959 expenditure will be to revamp a 79-inch hot-strip mill at Youngstown. It also plans to participate in the popular pastime of expanding Greater Chicago facilities. This year it will complete a sinter plant at Indiana Harbor and is constructing a second continuous annealing line at its No 2 tin mill at Indiana Harbor.

No 7 and 8 steel makers Armco and Inland plan to cut capital expenditures this year—but from higher-than-normal levels. Their outlays last year were the largest in the industry except for Big Steel and Bessie. **Armco** which spent $60,000,000 in 1958 will use its $45,000,000 budget this year chiefly to finish a hot-strip mill at Middletown, Ohio and start up a $10,000,000 rod mill in Kansas City. With an eye to the Southwest, Armco has announced it may someday put up a million-ton-a-year steel plant and seamless pipe mill in this booming area.

Inland plans an $80,000,000 expenditure this year *v* $94,300,000 in 1958. Part will go to build a third electrolytic tinning line at its Indiana Harbor works with equipment to supply tin plate coils. It also plans a 50% increase in structural shape capacity at the Indiana Harbor mill and a new sintering plant.

Out in the Far West, ninth-ranking **Kaiser Steel**, will this year spend only $28,000,000 after 1958's whopping outlay of $73,200,000 which completed a 2½-year, $214,000,000 expansion program. Plans for smaller companies are mixed. But the expenditures of the big producers far outshadow other steel company outlays.

Large & small, the steelmen's plans add their bit to the improving economy. As the key capital goods ingredient, steel both feels and feeds fluctuations in capital goods expenditures. Since capital equipment and expansion expenditures are the first to be cut back in a recession when the economic outlook is gloomy, steel orders are the first and fastest to slow. Then the industry's own huge capital expenditures fall and deepen the cycle. The reverse is true on the upswing.

New US Steel soaking pits

Again the modest but widespread increases in capital expenditures now scheduled by steel appear to pace the overall pattern reported last month by the National Industrial Conference Board: a "sustained rise" ahead in plant & equipment outlays. The board's chief economist Martin R Gainsbrugh two weeks ago told a Congressional subcommittee the upswing in capital expenditures will be "well-timed" for the long-term recovery.

WE HEAR FROM . . .

For the past thirteen years the policy of this section has been to print only letters of criticism or additional information. Because they would add little to the knowledge of readers, our numerous complimentary letters will be included only on rare occasions.

Fly in the Clearance

CHICAGO

GENTLEMEN:

As an alumnus of Sears, Roebuck buying staff I was vastly amused to read in your January 21 issue the reference to Winter sales catalogs which started, "these books are chiefly the mail order house way of running post-Christmas clearance sales."

This is, of course, a most unsophisticated and inaccurate description of a merchandise technique that is definitely not a clearance sale in the accepted sense of the term. Plans for the books, called Flyers by both Sears and Ward, are made at least six months in advance * * * in the previous mid-Summer.

The Sears buyers are restricted to merchandise chosen from the regular catalog at a reduced price. Sears merchandising policy prevents quality reductions so the respective buyers semi-annually approach their manufacturers with a canned oration preaching the wisdom of cost reduction for the sale medium to be matched by reduction of Sears normal gross profit resulting in substantial selling price reductions.

The more sophisticated of Sears suppliers traditionally add a factor in establishing their original price line structure so that, when special price concessions are made, they (the hep manufacturers) do not take all the rap of the reduction. The unwary or unknowing manufacturer who quotes originally his best possible cost price often finds himself unhappily over the barrel from demands for price concessions for the Flyers—which demands are usually almost a black-jack in connection with future purchases.

Item I quoted sounds like the stuff that the lady research staffers of *Time* and *Life* dig up and should not be held against your superb editorial efforts. IR is an excellent business periodical * * *.

Very truly yours,
NORMAN MACDONALD

Thanks to reader MacDonald for these fascinating glimpses of mail order practice. While these sales referred to admittedly differ from department store clearances, the analogy to post-Christmas sales was "dug up" by one of INVESTOR'S READER'S pretty researcher-writers in a long-distance chat with a colloquially speaking Monkey Ward veep.—*Ed.*

Cotton in the Carolinas

ROCK HILL, SOUTH CAROLINA

GENTLEMEN:

The story on the textile industry in your February 4 issue, referring to the cover photo of continuous dyeing operation, states "the North Carolina finishing plant of M Lowenstein."

The photo actually was taken in South Carolina, in Rock Hill Printing & Finishing Company's "biggest-in-the-world printing and finishing plant." Lowenstein has no finishing plant in North Carolina but in addition to the one in Rock Hill has another large plant in Lyman, South Carolina.

Very truly yours,
TALBOT PATRICK
Editor & Publisher
Evening Herald

IR apologizes to reader Patrick and all loyal South Carolinians and hopes it has not given cause for a new conversation between the Governors of North & South Carolina. The picture was indeed taken at Lowenstein's Rock Hill Printing & Finishing Company division which turns out 1,700,000 yards of cloth a day but IR's two Atlanta-born writers got their directions garbled when they checked the information with Lowenstein's Yankee headquarters. —*Ed.*

Clear Skies at Air Reduction

Gases and Equipment Give Oxygen-Based Airco Down-to-Earth Business

UNLIKE MANY firms whose names give little clue to actual company operations, the Air Reduction Company does exactly what its name implies. It reduces (or breaks down) air into its separate components: oxygen, nitrogen, argon and the rare gases, neon, xenon and krypton. From these airy products and various "manufactured" gases comes a solid, down-to-earth business which Air Reduction president John Anthony Hill describes as "indispensable to almost every field."

The nation's No 2 producer of industrial gases (after Union Carbide subsidiary Linde) "Airco" caters strictly to industry rather than to what president Hill terms "my lady's whim." Although some of its products may ultimately end up right in the lady's hand (& mouth) as she push-buttons out some ready-whipped cream, they leave Airco plants in bulk gaseous form headed for steel mills, aircraft & missile plants, food processing centers, electrical equipment factories and structural metal fabricating facilities. Airco also supplies industry with welding equipment.

All told industrial gases (chiefly oxygen, nitrogen and argon) and equipment account for 54% of Air Reduction sales, carbon dioxide claims 8½%, medical gases and hospital equipment (anesthesia machines, oxygen pipeline systems, surgical sutures) bring in 7%. A chemical line adds another 22% of volume while export sales and foreign subsidiaries make up the remainder.

Oxygen Origin. With 187 plants and distribution centers, nine divisions and six subsidiaries, the $195,-000,000-assets Airco of today has come a long space since its 1915 start in a small Philadelphia plant. Young Airco commercially pioneered the mixing of oxygen with acetylene to produce a 6,000°F oxyacetylene flame which would sever and weld metals. In 1924 Airco acquired National Carbide Corp whose carbide plant and limestone quarries gave it its own acetylene (a throw-off from calcium carbide) source.

From then on expansion came as naturally as breathing to Airco. The company quickly branched into the equipment field, in 1931 acquired Wilson Welder & Manufacturing, a pioneer manufacturer of electric arc-welding machines. Although electric arcwelding did not immediately replace oxyacetylene welding (familiarly the acetylene torch) it could be used on many applications which required a hotter and faster process than the gas flame provided. Today arcwelding and Airco-pioneered offshoot gas shielded arcwelding (where gases surround the electric arc to prevent oxidation) are the major metal joining processes. The oxyacetylene process is still used for the shape-cutting of steel plate in the shipbuilding, construction and machinery industries.

With the acquisition of the Ohio Chemical & Surgical Equipment

Company in 1940, Air Reduction moved into the hospitals. It gained a line of anesthetic, analgesic and therapeutic gases such as nitrous oxide ("laughing gas") and cyclopropane plus complementary hospital equipment.

Over the years oxygen-based Airco has further broadened its gas markets by picking other elements from the air: argon for gas shielded arcwelding and fluorescent lamps; neon, xenon and krypton for tubular display lights, television and electronic tubes; nitrogen for missile testing. Going a step beyond the air itself, Air Reduction began to "make" carbon dioxide, nitrous oxide and hydrogen.

Because of the many additional uses of carbon dioxide, the Pure Carbonic division was created to turn out CO_2 in gaseous, liquid and solid states. Gaseous carbon dioxide puts the sparkle into soft drinks, more recently has been used in a type of "gas chamber" to immobilize hogs just before slaughtering. In liquid state it is used to simulate high-altitude conditions in environmental test chambers and as a controlled refrigerant for low temperature testing of aircraft and guided missile components. As a solid it is "dry ice."

Airco entered the chemical field just eight years ago when the Air Reduction Chemical division was formed to make alcohols and glycols from acetylene—the same versatile gas which originally helped breathe life into the company. Today Airco has six chemical plants in the US.

But in spite of fast growth in the chemical line, 54-year-old Hill states: "Our industrial gas and welding business is still our best and most important field. People attribute more glamor to chemicals, though, and they do show the greatest percentage improvement. But there is much growth in gas. The new metals such as titanium and zirconium can't get along without our welding process; missile makers are large customers."

Financial Formula. Unfortunately Airco's business did not always show the same buoyancy as its products. In the Forties, sales seesawed between \$71-and-98,000,000, net income between \$4-and-8,000,000. At the same time Airco's capital expenditures program was practically at a standstill.

In 1951 Airco decided a less conservative spending policy would mean more long-range sales and profits, spent almost as much (\$14,600,000) on capital expenditures in that one year as had been spent in the previous three. New plant & equipment expenditures hit a peak (up to now) of \$29,050,000 in 1957. Last year Airco spent about \$23,000,000. In 1957-58 three new air separation plants were opened and ten other plants were expanded.

John Hill figures: "I'm relatively sure we'll be spending between \$35-and-40,000,000 this year." Biggest chunk of the record 1959 expenditures goes to reinforce Airco's rapidly growing position in the chemical field. At Calvert City, Ky a 20,000,000-pound a year, \$12,000,000 polyvinyl alcohol resin plant (see cover) is slated for 1960 completion while capacity of the present 45,000,000-

pound vinyl acetate monomer plant is being doubled.

The rapid increase in vinyl acetate monomer production is a result of a license received last year from Kurashiki Rayon Company Ltd of Japan. Says president Hill: "Right now there's only one other company in the US making this resin on a large-scale, continuous-process basis. Many uses of the resin are to be had in the manufacture of adhesives, textiles and paper coatings."

Airco also has a Kurashiki license for manufacture of vinylon fiber from polyvinyl alcohol. This has opened speculation the company plans to enter the consumer market via textiles. President Hill admits: "We have in mind a number of textile companies with whom we might go into partnership" but cautions "we certainly haven't reached a decision yet."

Last year Airco and Mastic Tile Corp of America teamed in a 60-40 partnership to form Cumberland Chemical Corp. The new company has started a $10,000,000 plant at Calvert City to make vinyl chloride and a plasticizer for use in Mastic's floor and wall coverings.

The decision to build for the future has done much to expand Airco operations: sales spiraled from $98,000,000 in 1950 to $190,000,000 in 1957. Although heavy expenditures kept profits depressed for several years at the start of the expansion plan Airco earnings rose from 1950's $8,500,000 to $16,500,000 by 1957.

However last year the recession compressed results: sales dropped 7% to $175,300,000 while earnings went down 19% to $13,350,000 or $3.47 a share. John Hill who has headed Airco since 1948 explains: "We're usually too diversified to slump simultaneously with the steel industry. But when a slump in steel making goes on to the metal fabricators, then we're hit. That's what happened last year."

Airco shares slumped from 65 in 1957 to 49 last year. They have since recovered however, hit an alltime 88 early this year. Currently they trade around 85 on the Big Board for a 2.9% yield based on the $2.50 a share annual payout.

As for this year's outlook, Jim Hill "hates to make estimates" but less hesitant Wall Streeters figure Airco earnings should come close to the $4.35 of 1957.

Airco air reduction unit

Indiana Standard Lengthens Its Reach

Giant Refiner In Worldwide Search For Foreign Oil

WHEN the Standard Oil Company of Indiana last Spring agreed to pay Iran a $25,000,000 cash bonus, spend at least $82,000,000 in exploration over the next twelve years for rights to 4,000,000 acres of offshore concessions in the Persian Gulf, the precedent-shattering terms surprised oilmen and Iranians alike. But the company seems well satisfied. When queried recently if he thought the price was possibly a little steep, Indiana financial vice president David Graham replied determinedly: "Hell, no."

This blunt response typifies Indiana Standard's determined quest for foreign oil. After more than two decades as a strictly domestic operator, the $2½ billion-assets company has in the past four years gone international with a vengeance—but with any commercial success yet in the future. Through domestic production subsidiary Pan American Petroleum it has set up sub-subsidiary Pan American International to handle all foreign production operations and work has been started on concessions in Argentina, Venezuela and Libya as well as Iran.

Besides boosting the company to an international status Indiana's wanderlust is designed to balance production with refinery runs. In the almost half century since its forced spin-off from Standard of New Jersey (IR, April 2, 1958) it has become the No 5 US oil company in total revenues. But as a domestic refiner it stands all the way up in the No 2 spot right after Jersey. In short, Indiana's activities have been concentrated in the refining end where profit margins are frequently vulnerable to a squeeze between relatively well-cushioned crude oil costs and bitterly competitive consumer prices. For example 1957 refinery runs averaged 648,000 barrels a day or more than double the net daily production rate. This imbalance was even more accentuated in the first half of 1958 when Texas (where Indiana Standard gets 54% of its oil) cut its "allowables" to a mere 56 producing days as against 96 in the first half of 1957. The company consequently produced only 272,000 barrels of oil daily *v* refinery runs of 624,000.

Southward Bound. Indiana began to cast afield in 1955 when it acquired a three-fourths interest in a concession covering all of Jamaica and a half interest in 12,000,000 Cuban acres. The venture was not blessed with luck. After three dry holes in Jamaica, Indiana last year moved to Cuba where "we had nothing but dry holes again. We're now withdrawing from Cuba." Luckily for Indiana the loss was small—"less than 1% of our total capital expenditures budget."

The Venezuelan venture is considerably costlier but so far no luckier. In 1957 the company paid almost $50,000,000 for roughly 220,000 net acres. One plot on Lake Maracaibo shared with Sun Oil and

Atlantic Refining has yielded two dry holes. And while six of the seven wells sunk on other Venezuelan concessions have "showed," they have not yet produced in commercial quantities.

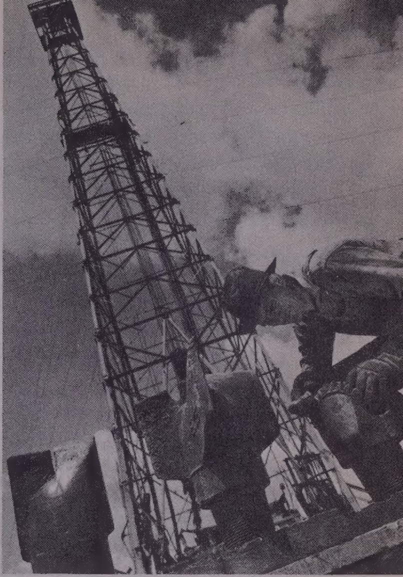
When & if the Venezuelan properties "come in," they may not be as profitable as previously anticipated. Under Venezuela's new tax law producing companies must pay the government 60% of profits rather than 50% as in the past.

Indiana's newest Latin American concession is a 1,000,000-acre tract in Argentina for which Indiana paid $60,000,000 last Summer. The contract calls for 50 wells this year, 100 more in 1960 with a total of 400 to be drilled within 15 years. "We're not drilling wildcats in Argentina in the ordinary sense," explains vp Graham. "A test well has already been drilled so we know there's oil."

However, the Argentina deal will not give Indiana more oil for its refineries. Under the agreement it must sell all found to the Argentine government for $1.59 a barrel.

Mideast Speculation. Indiana's biggest hope for foreign production is in Iran. But when Iran opened up its offshore areas and acreage outside the Consortium area (IR, July 23, 1958), it also imposed stiff profit terms. Besides the large bonus and exploratory fees, Indiana must first split any net profits 50-50 with the Iranian government then halve the remainder with the National Iranian Oil Company. Thus it will wind up with only one quarter of the profits—the so-called "75-25" split.

Indiana feels this share is ample.



Indiana oil search

Elaborates David Graham: "The Iranian prospects are potentially the best. We've got Kuwait, Qatar and Saudi Arabian pools all around us * * * I don't think we could spend too much money there."

In early 1958 Indiana oil hunters also treked into Libya. Here the terms are more modest. Indiana pays no bonus for three tracts totaling 23,000,000 acres, will halve profits with the government only if it finds oil in commercial quantities.

Catch the Hare. While Indiana has gone the first leg on round-the-world production the company as yet has no foreign refineries or markets. Says vp Graham: "You have to catch the hare before you can cook it. Sure we anticipate trouble developing markets. It takes a long, long time." Indiana is currently setting up Amoco Trading Corp to handle selling, trading and transpor-

tation of foreign oil. (Amoco is the trademark of long-time subsidiary American Oil which markets in the Eastern Seaboard states.)

To pave the costly road ahead, Indiana last September sold $200,000,000 of 4½% debentures. Part of the money was used to pay off $60,000,000 in short-term bank loans; the rest is slated for the massive capital expenditures needed to establish Indiana as a world oil power.

However David Graham hesitates to say just when the market development program will start. "If we hit a major producer at first crack, say in the Persian Gulf, why then we'd be starting in on a major capital expenditures program right away. We spent $275,000,000 in 1958. The only safe thing to say right now is we'll spend $25-to-50,000,000 more this year."

Past Glance. Ironically Indiana Standard was a world producer thirty years ago. Subsidiary Pan American Petroleum controlled 1,500,000 acres along the "Golden Lane" in Mexico where wells pumped a fantastic 100,000 barrels a day. It also had a 3,000,000-acre concession on Lake Maracaibo which yielded some 45,000 barrels daily. And Pan American was one of five US oil companies with an interest in the Iraq Petroleum Company.

But with the Depression, Indiana decided marketing costs of foreign oils were too great. In 1932 it signed the Seaview Contract with Standard of New Jersey which turned over all of Indiana's foreign holdings to Jersey for $47,910,000 and 1,780,000 shares of Jersey stock.

Although the deal took Indiana out of foreign oil (luckily before the Mexican expropriation), it made the company No 1 stockholder in Jersey common—much to the delight of Indiana stockholders who since 1948 have received small distributions of Jersey stock as supplements to their annual cash dividend. Last year it distributed $1.40 in cash and 1/200th share of Jersey.

David Graham hopes Indiana stockholders will before long be able to delight in more direct returns on their foreign investments. However, with overseas activities still on the expense side of the ledger while the recession brought a "leveling-off in domestic oil demand, a sharp decline in exports and weaker domestic prices," Indiana Standard's net income last year dropped to $117,800,000 or $3.29 an average share from $4.27 in 1957. But most of the drop came in the first half of the year and chairman Frank Prior reported "substantial improvement" in the last six months.

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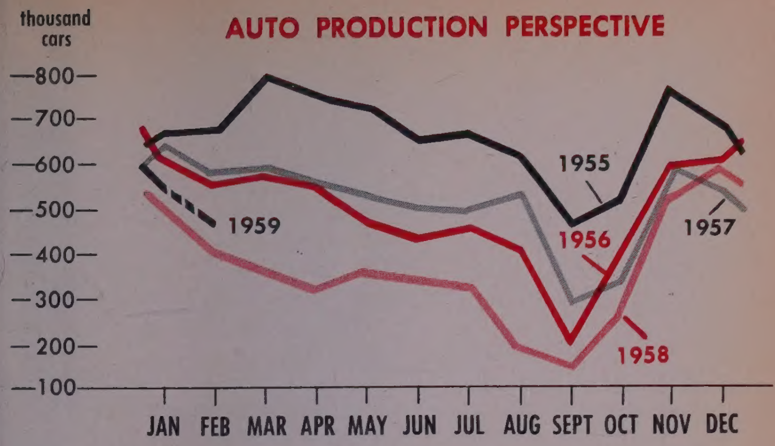
AUTO PRODUCTION PERSPECTIVE



Detroit's drive into 1959 follows a cheerier road than doleful 1958. January sales of 428,000 cars were 12.6% better than last year and early February showed 23% improvement. Production for the first two months is estimated 15% above year-ago levels. But as the chart shows, this satisfying gain over 1958 (the worst auto year since 1948) leaves the current rate way behind any of the three preceding years. In part production of the '59s was slowed by labor squabbles at the start of the model year. And Chrysler Corp, which was hurt most by various stoppages in its own organization last Fall, was forced to shut down many of its production lines early this year because the Pittsburgh Plate Glass strike shattered its glass supplies. But even where ample cars are parked in showrooms, sales have often been slower than the optimists hoped.

While pondering current results Detroit executives are anxiously curious about consumer preference between big and little cars. So far the juniors still seem the liveliest on the road. American Motors nearly tripled Rambler sales in January. The petite Lark sparked 11,000 sales for Studebaker-Packard in January alone for 2.6% of all US auto sales v 1.1% in January 1958. Foreign car sales jumped 40%.

Meantime five out of eight medium-priced lines failed even to match their slow 1958 pace. Also buyers of major makes showed increased interest in operating economy, as witness the renewed popularity of six-cylinder cars reversing the trend toward "eights." Thus Ford, which has enjoyed the biggest resurgence among the Low-Priced Three, last month laid off workers at its Dearborn V-8 shop while it raised output of six-cylinder engines in Cleveland. The sustained enthusiasm for smaller cars made most Detroiters take it for granted GM and Ford would be out with their own small-car entry (or even several entries) before Fall. If so, Chrysler probably would not lag far behind.

HULLABALLOO

People who visit the New York Stock Exchange for the first time invariably ask, "Is it always so noisy?" They expect a hum of activity and perhaps an occasional outburst of excitement, but they seem surprised at the unending uproar on the Exchange floor.

The answer to their question is yes, it is always pretty noisy, and the reason is simple. It is a rule of the New York Stock Exchange that securities must be bought and sold by *open outcry*. No whispering allowed. No private deals permitted.

Actually, the seeming chaos on the Exchange floor is well organized. And once you understand what is going on down there, you're likely to find the tumult very stimulating. Our six floor brokers do, even though the end of the day finds them hoarse and footsore.

Any New Yorker or New York visitor who hasn't viewed the panorama of the Exchange floor from the visitors' gallery should put it on his agenda for a visit soon. Hours are 10 a.m. to 3:30 p.m. Monday through Friday, the address is 20 Broad Street, and admission is free.

And if you'd like a simple explanation ahead of time of what goes on down there, you might ask for our booklet "What Everybody Ought to Know About This Stock and Bond Business." There's no charge for that, either.

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